

Service Date: July 6, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Montana )	UTILITY DIVISION
Public Service Commission's )	
Investigation of Federal Tax )	DOCKET NO. 86.11.62
Reform Act Impacts on Public )	SUB 2
Utility Revenue Requirements )	
<hr/>	INTERIM ORDER NO. 5276

FINDINGS OF FACT

1. On November 24, 1986, the Montana Public Service Commission (Commission), initiated this Docket with an Order to Show Cause that existing rates for public utilities remain just and reasonable following the Tax Reform Act of 1986 (TRA). Filings made pursuant to the Order included information found in and reconcilable with the Commission's minimum filing requirements. On June 8, 1987, the Commission issued Order No. 5236c in Docket No. 86.11.62. That Order set forth the Commission's decisions regarding general methodology for the ratemaking impacts to reflect the changes to revenue requirements occasioned by the Tax Reform Act.

2. On February 27, 1987, AT&T Communications of the Mountain States, Inc. (AT&T) filed an updated general rate case (Docket No. 86.12.67) based on a 1986 test year. This filing included the use of a 40% federal income tax rate. On May 27, 1987, AT&T filed rebuttal testimony in Docket No. 86.12.67. This filing contained proforma adjustments to use a 34% federal income tax rate. Both

these filings were in conformance with minimum filing requirements and contained information on the impacts of the TRA.

3. Simultaneously with this interim order the Commission is issuing an interim order in Docket No. 86.12.67. The Commission is separating the effects of the TRA from the general ratecase for consideration in this Docket. These two orders are to be implemented with the reduction in revenues occasioned by the changes in carrier access charges.

4. On June 26, 1987, AT&T filed responses to data requests from the Commission dated June 8, 1987. These data requests asked for quantifications of the general direction on TRA issues set forth in Order 5236c. In response to Data Request No. 7 AT&T states that the portion of its rate case revenue requirement attributable to the TRA impact is a \$219,000 reduction in annual revenues, \$161,000 of this amount is due to the federal income tax rate change to 34%.

5. In Order No. 5274 the Commission disallowed the inclusion of cash working capital in rate base. That disallowance decreased the net operating income required to bring AT&T to its allowed rate of return. Net operating income represents an "after tax" amount. To convert net operating income to revenues a "net to gross multiplier" is used. This multiplier is based on various income tax and gross revenue tax percentages. The fact that this multiplier changes substantially when a lower federal income tax rate is used is one of the main impacts of the TRA. When rate base amounts change then the impacts of the TRA change because of the effects of this multiplier. The Commission's disallowance of cash working capital changes the impact of the TRA from the \$219,000 reduction to a \$162,000 reduction in annual revenues.

6. The Commission finds that a revenue reduction of \$162,000 is appropriate on an interim basis in this Docket.

7. The Commission finds that AT&T should use the rate design set forth in Order No. 5274 in Docket No. 86.12.67 to implement this rate decrease.

#### CONCLUSIONS OF LAW

1. AT&T Communications offers regulated telecommunications services in the state of Montana and is a public utility under Section 69-3-101, MCA. The Commission has authority to supervise, regulate and control public utilities. Section 69-3-102, MCA.

2. The Commission may regulate the mode and manner of all investigations and hearings of public utilities. Section 69-3-103, MCA. The Commission may inquire into the management of the business of all public utilities, shall keep itself informed as to the manner and method in which the same is conducted, and shall have the right to obtain from any public utility all necessary information to enable the Commission to perform its duties. Section 69-3-106, MCA.

3. Public utilities are required to render their services at just and reasonable rates. Section 69-3-110, MCA. The Commission has a duty to enforce Montana's public utility laws, and may institute an investigation of the rates, tolls, charges, rules, practices and services of a public utility. Sections 69-3-110 and 324, MCA.

4. Section 69-3-304, MCA, provides in part, "the Commission may, in its discretion, temporarily approve increases or decreases pending a hearing and final decision." The rates approved herein are a reasonable means of providing interim relief. The rebate and surcharge provisions of 69-3-304, MCA, protect ratepayers and the utility in the event any revenue decreases authorized by this Order are found to be unjustified in the Final Order in this Docket.

ORDER

1. AT&T Communications is hereby granted interim revenue decreases in the amount of \$162,000 annually.

2. Rates shall be filed to reflect the revenue decrease granted. Such rates will be effective July 1, 1987.

3. Interim revenues granted herein are subject to rebate or surcharge should the Final Order in this Docket determine that a different revenue requirement is appropriate.

4. Staff is directed to hold a prehearing conference to discuss a procedural schedule in this docket.

DONE IN OPEN SESSION at Helena, Montana this 1st day of July, 1987, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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TOM MONAHAN, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell  
Commission Secretary

(SEAL)